



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

Snohomish County Emergency Radio System

For the period January 1, 2013 through December 31, 2013

Published December 29, 2014

Report No. 1013294





Washington State Auditor
Troy Kelley

December 29, 2014

Board of Directors
Snohomish County Emergency Radio System
Everett, Washington

Report on Financial Statements

Please find attached our report on the Snohomish County Emergency Radio System's financial statements.

We are issuing this report in order to provide information on the System's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

TABLE OF CONTENTS

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	4
Independent Auditor's Report On Financial Statements	6
Financial Section.....	9
About The State Auditor's Office.....	24

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Snohomish County Emergency Radio System January 1, 2013 through December 31, 2013

Board of Directors
Snohomish County Emergency Radio System
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Snohomish County Emergency Radio System, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 15, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the System implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

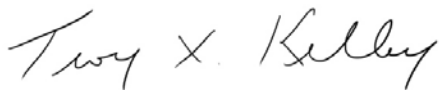
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of the System's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

December 15, 2014

Independent Auditor's Report on Financial Statements

Snohomish County Emergency Radio System January 1, 2013 through December 31, 2013

Board of Directors
Snohomish County Emergency Radio System
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Snohomish County Emergency Radio System, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Snohomish County Emergency Radio System, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the System adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

December 15, 2014

Financial Section

Snohomish County Emergency Radio System January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

INTRODUCTION

As management of SERS, we offer readers this narrative overview and analysis of the financial activities of SERS for the year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the SERS financial statements and the notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS

- As of December 31, 2013, SERS total assets exceeded total liabilities by \$11.3 million (net position). \$9.7 million or 86% of this amount is net investment in capital assets. The remaining net position of \$1.6 million is unrestricted.
- In 2013, SERS total net position decreased by \$503 thousand or by 4.3%.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements. Included are the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and the Notes to the Financial Statements.

- The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position are prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. SERS' net position represents the difference between assets and liabilities. Over time, increases or decreases in the net position are one indicator of whether the financial condition is improving or deteriorating.
- The Statements of Cash Flows reflects the sources and uses of cash. This statement includes a reconciliation of Operating Income from the accrual basis statements to the Net Cash Provided by Operating Activities. Other non financial factors such as changes in funding structures and the condition of operating assets should be considered when assessing the overall health of the SERS.

Statement of Net Position

The Statement of Net Position can serve as a useful indicator of SERS financial position. SERS net position as of December 31, 2013 is \$11.3 million. Following is a condensed version of the statement of the net position.

Condensed Statement of Net Position

	2013	Increase (Decrease)	2012
Assets			
Current Assets	\$ 1,630,444	303,954	\$ 1,326,490
Capital Assets, Net	9,724,874	(913,862)	10,638,736
Total Assets	11,355,318	(609,908)	11,965,226
Liabilities			
Current Liabilities	40,779	(85,818)	126,597
Non-Current Liabilities	23,741	(21,551)	45,292
Total Liabilities	64,520	(107,369)	171,889
Net Position			
Net Invested in Capital Asset:	9,724,874	(913,862)	10,638,736
Unrestricted	1,565,924	411,323	1,154,601
Total Net Position	<u>\$ 11,290,798</u>	<u>\$ (502,539)</u>	<u>\$ 11,793,337</u>

Change in Net Position

The change in net position table illustrates the increases or decreases in net position resulting from its current year operating activities. SERS net position decreased by \$503 thousand in 2013 primarily due to depreciation.

Statement of Revenues, Expenses and Changes in Fund Net Position

Following is a condensed version of the statement of revenues, expenses and changes in fund net position.

Condensed Statement of Revenues, Expenses and Changes in Fund Net Position

	2013	Increase (Decrease)	2012
Revenues			
Operating Revenue	\$ 2,518,969	\$ 284,180	\$ 2,234,789
Non-Operating Revenue	194,610	138,181	56,429
Total Revenues	2,713,579	422,361	2,291,218
Operating Expenses	3,225,068	(491,040)	3,716,108
Income (Loss) Before Contributions	(511,489)	913,401	(1,424,890)
Capital Grants and Contributions	8,950	(1,311,261)	1,320,211
Change in Net Position	(502,539)	(397,860)	(104,679)
Net Position - Beginning	11,793,337	(104,679)	11,898,016
Net Position - Ending	<u>\$ 11,290,798</u>	<u>\$ (502,539)</u>	<u>\$ 11,793,337</u>

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

At the end of 2013, SERS owned buildings, infrastructure, machinery and equipment, and intangibles valued at \$9.7 million. SERS spent \$335 thousand on capital assets and received \$8,950 in contributed assets in 2013. For additional information refer to Note 3 in the notes to the financial statements.

CAPITAL ASSETS

	2013	2012
Capital Assets		
Building and Structures, Net	1,078,307	1,160,783
Infrastructure, Net	6,820,135	7,795,308
Machinery and Equipment, Net	1,399,255	1,337,757
Intangibles, Net	427,177	282,983
Construction in Progress	-	61,905
Total Capital Assets	9,724,874	10,638,736

Long-Term Debt Activity

Currently, SERS has no bonded or long term debt commitments.

ECONOMIC FACTORS

SERS operations are affected by inflationary pressures and increased system usage as population levels within Snohomish County increase. SERS primary operating revenue source are fees charged directly to the members per contractual interlocal agreements. Although net position decreased by \$503 thousand, primarily due to depreciation, year-end net position totaled \$11.3 million. In order to build replacement reserves, a future consideration may be to increase maintenance and operation assessments.

CONTACTING SERS

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of SERS' finances and to demonstrate SERS' accountability for the money it receives. If you have questions about this report or need additional financial information, contact SERS at Snohomish County Emergency Radio System, 1121 SE Everett Mall Way Ste 210, Everett, WA 98208 or by calling (425) 407-3949.

**Snohomish County Emergency Radio System
Statement of Net Position
December 31, 2013**



	<u>2013</u>
ASSETS	
Current Assets	
Cash and Equivalents	\$ 1,578,885
Customer Receivables	7,224
Due from Other Governments	25,543
Prepayments	<u>18,792</u>
Total Current Assets	1,630,444
Non-Current Assets	
Buildings and Structures, Net	1,078,307
Infrastructure, Net	6,820,135
Machinery and Equipment, Net	1,399,255
Intangibles, Net	<u>427,177</u>
Total Non-Current Assets	9,724,874
Total Assets	<u><u>\$ 11,355,318</u></u>
LIABILITIES	
Current Liabilities	
Accounts Payable	15,354
Accrued Liabilities	15,132
Custodial Accounts	165
Unearned Revenue	<u>10,128</u>
Total Current Liabilities	40,779
Non-Current Liabilities	
Employee Benefits Payable	<u>23,741</u>
Total Non-Current Liabilities	23,741
Total Liabilities	<u><u>64,520</u></u>
NET POSITION	
Net Investment in Capital Assets	9,724,874
Unrestricted	<u>1,565,924</u>
Total Net Position	<u><u>\$ 11,290,798</u></u>

The notes to the financial statements are an integral part of this statement.

**Snohomish County Emergency Radio System
Statement of Revenues, Expenses
and Changes in Net Position
For the Year Ended December 31, 2013**



	<u>2013</u>
Operating Revenues	
Charges for Services	\$ 188,477
Operating Assessments	2,330,492
Total Operating Revenues	<u>2,518,969</u>
Operating Expenses	
Personnel Services	823,836
Supplies	191,964
Depreciation	1,258,251
Miscellaneous Expenses	3,219
Contractual Services	947,798
Total Operating Expenses	<u>3,225,068</u>
Operating Income (Loss)	<u>(706,099)</u>
Non-Operating Revenues (Expenses)	
Intergovernmental Revenues	191,624
Interest and Investment Earnings	2,842
Miscellaneous Revenues	144
Total Non-Operating Revenues (Expenses)	<u>194,610</u>
Income (Loss) Before Contributions	<u>(511,489)</u>
Capital Grants and Contributions	8,950
Change in Net Position	<u>(502,539)</u>
Net Position, Beginning	11,793,337
Net Position, Ending	<u><u>\$ 11,290,798</u></u>

The notes to the financial statements are an integral part of this statement.

**Snohomish County Emergency Radio System
Statement of Cash Flows
For the Year Ended December 31, 2013**



Cash Flows from Operating Activities

Receipts from Operations	\$ 2,608,496
Payments to Employees	\$ (853,984)
Payments of Claims	\$ (1,239,474)
Net Cash Provided by Operating Activities	\$ 515,038

Cash Flows from Capital and Related Financing Activities

Capital Acquisition and Construction	\$ (335,439)
Capital Grants	\$ 191,625
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (143,814)

Cash Flows from Non-Capital Financing Activities

Miscellaneous Revenue	\$ 142
Total Cash Flows from Non-Capital Financing Activities	\$ 142

Cash Flows from Investing Activities

Interest on Investments	\$ 2,842
Net Cash Provided (Used) by Investing Activities	\$ 2,842

Net increase (Decrease) in Cash and Cash Equivalents

	\$ 374,208
Cash and Cash Equivalents, January 1, 2013	\$ 1,204,677
Cash and Cash Equivalents, December 31, 2013	\$ 1,578,885

Reconciliation of Operating income to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$ (706,099)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	\$ 1,258,251
(Increase) Decrease in Accounts Receivables & Prepayments	\$ 70,254
Increase (Decrease) in Accounts Payable & Other Liabilities	\$ (107,368)
Total Adjustments	\$ 1,221,137
Net Cash Provided (Used) by Operating Activities	\$ 515,038

Non-Cash Investing, Capital and Related Financing Activities:

Contributions of Capital Assets	\$ 8,950
---------------------------------	----------

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Snohomish County Emergency Radio System (SERS) was formed in 1999 to provide enhanced emergency communication services to Snohomish County. SERS is responsible for design, development, financing, acquisition, operation, maintenance, and repair of the 800-megahertz emergency radio system. SERS was created via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County. Snohomish County Fire Protection District No. 1 joined after the original formation. A Board of Directors comprised of eleven members representing each of the entities is appointed to govern SERS.

The financial statements of Snohomish County Emergency Radio System (SERS) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. SERS has implemented the provisions of the following Governmental Accounting Standards Board (GASB) Statements for 2013:

- GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.
- GASB Statement No. 66, Technical Corrections – 2012, which amends GASB Statements No. 10 and No. 62.

A. Reporting Entity

The financial statements and the accompanying notes of SERS include all funds for which the Board of Directors has oversight responsibility. There is currently one fund created and operated for SERS.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, SERS is considered a proprietary fund engaged only in business-type activities. Accordingly, SERS financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Capital asset purchases are capitalized and long-term liabilities are recorded.

SERS distinguishes between operating revenues and expenses from non-operating. Operating revenues and expenses result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenues of SERS are charges to other governments for operating assessments. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

C. Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of resources, the accounts of SERS are maintained in accordance with the principles of fund accounting. The accounts relating to specified activities or objectives have been classified as one fund, a proprietary fund.

D. Deposits and Investments

SERS utilizes the Snohomish County Treasurer for investing activities. SERS reports investments in the Statement of Net Position at fair value which is materially equivalent to cost. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

As of December 31, 2013, SERS held the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Local Government Investment Pool	\$1,431,936

Credit risk. All investments are held in the Washington State Local Government Investment Pool (LGIP). The LGIP is unrated and operated in a manner consistent with the SEC's Rule 2a-7 of the Investment Act of 1940.

Custodial Credit Risk. Deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC provides protection for public treasurer deposits that exceed the amount insured by FDIC.

E. Cash and Equivalents

Cash and Equivalents include funds held in the Washington State Local Government Investment Pool (LGIP). The LGIP is considered to be cash equivalents as funds held within the pool can be liquidated on demand to meet daily cash flow needs.

F. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services rendered.

G. Due from Other Governments

Due from other governments consist of amounts owed from government agencies for goods and services rendered or grant reimbursements.

H. Capital Assets

Capital assets are recorded at historical cost and defined by SERS as assets with an initial cost of more than \$5,000 (except software and infrastructure). Software and infrastructure expenditures in excess of \$100,000 are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

I. Compensated Absences

SERS policies regarding vacation, sick leave and compensatory time permit employees to be compensated for earned but unused vacation leave, compensatory time, and a portion of their sick leave.

NOTE 2 – JOINT VENTURE INFORMATION

In accordance with generally accepted accounting principles SERS is a joint venture with each entity's equity interest reported on its member entities' financial statements.

NOTE 3 – CAPITAL ASSETS

Capital assets are recorded at actual cost. The capitalization threshold is \$5,000 except for software and infrastructure which is \$100,000. Individual assets with a total cost of less than \$5,000 are reported as expenses in the period in which they were incurred.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2013



Depreciation is computed using the straight-line method over the estimated useful lives of the assets (see table below).

Asset Class	Useful Life (years)
Buildings & Structures	15 - 40
Infrastructure	5 - 15
Machinery & Equipment	5 - 7
Intangibles	30

The following is a summary of changes in capital assets for SERS:

CAPITAL ASSETS				
For the year ended December 31, 2013				
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Non-depreciable				
Construction in Progress	61,905	-	(61,905)	-
Total Capital Assets, Non-depreciable	61,905	-	(61,905)	-
Capital Assets, Depreciable				
Buildings & Structures	1,759,937	8,950	(70,747)	1,698,140
Infrastructure	16,812,362	-	-	16,812,362
Machinery & Equipment	14,213,362	276,326	(35,166)	14,454,522
Intangibles	316,378	191,765	-	508,143
Total Capital Assets, Depreciable	33,102,039	477,041	(105,913)	33,473,167
Less Accumulated Depreciation for:				
Buildings & Structures	(599,154)	(49,371)	28,693	(619,832)
Infrastructure	(9,017,054)	(975,173)	-	(9,992,227)
Machinery & Equipment	(12,875,605)	(214,829)	35,166	(13,055,268)
Intangibles	(33,395)	(47,571)	-	(80,966)
Total Accumulated Depreciation	(22,525,208)	(1,286,944)	63,859	(23,748,293)
Total Capital Assets, net	10,638,736	(809,903)	(103,959)	9,724,874

NOTE 4 – PENSION PLANS

All Snohomish County Emergency Radio full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments.

Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2013



Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates, expressed as a percentage of covered payrolls, for the year ended December 31, 2013 were as follows:

Contributor	PERS 1 Required	PERS 2 Required	PERS 3 Required	Plan Rate Effective Dates
Employer	7.21%	7.21%	7.21%	1/01/13-6/30/13
Employee	6.00%	4.64%	6 options- rates 5-15%	1/01/13-6/30/13
Total	13.21%	11.85%	N/A	
Employer	9.19%	9.19%	9.19%	7/01/13-8/31/13
Employee	6.00%	4.92%	6 options- rates 5-15%	7/01/13-8/31/13
Total	15.19%	14.11%	N/A	
Employer	9.21%	9.21%	9.21%	9/01/13-12/31/13
Employee	6.00%	4.92%	6 options- rates 5-15%	9/01/13-12/31/13
Total	15.21%	14.13%	N/A	

Both SERS and the employees made the required contributions. SERS' required contributions of employees and employers for the years ended December 31 were:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	NA	\$ 63,478	\$ 13,584
2012	NA	60,938	12,313
2011	NA	53,590	11,536

NOTE 5 - RISK MANAGEMENT

SERS is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Snohomish County Emergency Radio System is a member of the Washington Cities Insurance Authority (WCIA), a public entity risk pool.

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence in the self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

NOTE 6 – OPERATING LEASES

SERS leases land under noncancellable operating leases. The total cost for such leases was \$321,409 for the year ended December 31, 2013. The future minimum lease payments for these leases are as follows:

Year Ending December 31st	Amount
2014	239,587
2015	223,107
2016	227,575
2017	142,339
2018	38,835
2019-2022	152,184
Total	\$ 1,023,627

NOTE 7 – RELATED PARTY AGREEMENT

SERS entered into an interlocal agreement with Snohomish County for accounting services, including preparation of SERS financial statements. Pursuant to this agreement, SERS pays the County an annual fee of \$48,000. SERS also reimburses the County for various minor miscellaneous expenses.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov